



## CHAPTER 10

### SALARY SURVEYS

#### SALARY REFERENCE DATA

Salary information is an important tool in managing employee compensation and comparing the competitiveness of Commonwealth's salaries to the labor market. This information is used in several ways.

#### Pay Band Adjustments

The Department of Human Resource Management (DHRM) provides an analysis of salary information to the Governor and the General Assembly to support the decision to adjust the pay structure. The information is derived from range adjustment projections found in surveys conducted by national compensation organizations. DHRM also provides information on projected performance increase budgets to the Governor and General Assembly for use in determining funding for performance increases.

#### Salary Management for Roles and Employees

DHRM maintains a collection of salary surveys covering public and private firms in a wide variety of occupations and geographic locations. DHRM also conducts surveys to supplement these sources and will assist agencies in analyzing and applying the survey data.

A summary of the survey data related to each **Role** is available to the agencies on DHRM's website. The **survey summaries** will vary among the different **Roles** since a variety of data and survey sources will be used (see Appendix J, Survey Summary Data Sample). Not all survey sources will provide information for every **Role**. Agencies will use the survey data to manage employee compensation in the following ways:

- **Managing Employee Salaries**

The **survey summaries** provide agencies with information that will enable them to target their salary increase dollars to specific employees where labor market competitiveness is critical. The agencies may use the

**survey summaries** to allocate a larger percentage of their salary budgets to jobs that are critical to the operations of the agency and that are experiencing unusual salary movement in the market.

Since **Roles** combine a number of jobs within a Career Group, survey data are often not applicable to an entire **Role**. The **survey summaries** provide salary data on discrete jobs in the labor market. For example, carpenters and electricians are assigned to the Trades Technician III Role and the **survey summaries** may be different for these two jobs.

- **Adjusting Pay Ranges**

Agencies are responsible for monitoring salary data for **Roles** used and targeting salary increases based on this information. However, if the rate for a particular type of job (e.g., electrician) increases faster than the State's band structure, staffing problems may result.

When agencies experience staffing problems, they should review salary and staffing data, including turnover and vacancy information. Agencies experiencing or anticipating staffing difficulties may contact DHRM to request the establishment of **differentials**, **Career Group revisions** or **re-banding** a particular **Role**.

➤ **Salary and Competitive differentials** are used when a particular type of job (e.g., electrician) is not paid competitively with the geographic labor market. Typically, **differentials** are used to address staffing problems that arise due to turnover and prolonged vacancies. Agencies may contact DHRM to request consideration of a **differential**. DHRM assesses the extent of the problem and the impact a **differential** would have on other jobs and agencies. If justified, DHRM may approve a **differential**.

Additionally, DHRM monitors the **differential** plan for positions in the northern Virginia area (NOVA). **NOVA differentials** are adjusted based on market and staffing data from that geographic area. In some cases, adjustments to the differential may require a request for additional funding.

- **Career Group Revision** results from a study of jobs using salary data and the compensable factors. In these situations, specific types of jobs within a **Role** may move to a higher or lower pay band.

When a **Career Group** is revised, the **Career Group Description** must be updated to reflect the changes in the assigned **Roles**. Employees that move to a different **Role** may have their salaries adjusted according to the rules governing **Upward or Downward Role Changes** (see Chapter 8, Pay Practices).

- **Re-banding** is the change of a **Role** to a higher pay band due to extreme changes in the labor supply or market conditions. Since there is a 30.6% difference between the minimum salary in each pay band (with the exception between pay band 2 and 3 which has a 19.5% difference) **re-banding** will occur infrequently and is typically in response to extreme labor market changes. All agencies affected by **re-banding** must be able to fund any resulting salary increases provided to employees.

## **REQUESTS FOR DIFFERENTIALS, CAREER GROUP REVISIONS OR RE-BANDING**

When an agency experiences staffing problems due to the lack of competitiveness with the labor market, the agency may submit a request to DHRM for consideration of a **differential, Career Group revisions** or the **re-banding** of a **Role**. The following information should be provided by the agency:

- **Problem Statement** that gives a concise summary of the problem. This statement should show a cause-and-effect relationship between pay and an identified problem. (*Example*: “During the past six months, the agency has lost fifteen electricians to competing firms that pay an average of 20% above State salaries.”)
- **Agency Action** that describe what the agency has done to improve staffing for the positions under study, such as expanding the recruitment area, providing in-band salary adjustments to incumbents, etc. The agency should include an assessment of why it believes the staffing problems persist.

- **Turnover and Vacancy** that describe the current staffing problem: turnover rate; current number and percentage of positions that are vacant; relevant historical data and information from exit interviews (see Appendix K, Turnover Rate Computation and Usage). The analysis of information should focus on employees leaving for salary-related reasons. Promotions and transfers to other positions within State government are not normally indications of retention problems due to salary.

Each agency is responsible for conducting exit interviews to obtain information on the reasons why employees are leaving their jobs. These interviews may reveal problems related not to salaries but to other factors such as job satisfaction, opportunity for training and advancement, educational assistance, work environment and quality of management.

- **Recruitment** strategies that have been employed to fill vacancies. Agencies should specify the number of advertisements in a given period; media used; number of qualified applicants; salaries offered; applicants' most recent salary and the reasons applicants have declined employment offers.
- **Starting Salary** analysis that describes the agency's experience with salary offers for new employees during the last twenty-four months. This analysis should address where in the pay band employees have been hired and whether any exceptional salaries have been requested.
- **Internal Impact** that includes an analysis of the position and negative effects that a **differential**, **Career Group revision** or **re-banding** may have on the internal alignment with other employees in similar or related **Roles** in the agency.
- **Market Data** that may have been collected by the agency from competing firms in the local market area where the problem exists. Agencies should also assess any salary data that DHRM routinely provides. If competition is not limited to a particular locality, the collection of market data should be coordinated with DHRM.
- **Certification of Availability of Funds** based on the type of action the agency has requested. All requests for **Career Group revision** or **differential** must be accompanied with a statement from the agency that funds are available to support any resulting salary increases. Certification to

the Secretary of Finance that funds are available to support salary increases is required for **Career Group revisions** or **re-banding a Role**.

If DHRM declines the request, agency heads or their designee(s) may appeal the decision (see Appendix D, Appeals).

## **CONDUCTING SALARY SURVEYS**

DHRM routinely monitors salary information and identifies trends. When an agency submits a request for a **differential, Career Group revision** or the **re-banding** of a **Role**, DHRM will assess all the available information.. If necessary, DHRM may conduct a salary survey to validate the State's market position or request that the agency conduct a survey.

State agencies need to be sensitive to burdening other employers with requests for salary data. Therefore, in areas outside the metropolitan Richmond area, agencies should coordinate data collection with other agencies in the local area that have the same type of positions. Also, agencies in the metropolitan Richmond area should coordinate data collection with DHRM. Agencies are asked not to contact the central personnel departments in other States without DHRM's concurrence.

The following guidelines should be used by agencies in their surveying efforts. (These are the same guidelines that DHRM follows in conducting salary surveys):.

- **Selecting the jobs to survey:** A survey may gather information relating to an entire Career Group, a **Role**, or to a specific group(s) of positions within a **Role** (e.g., electricians within the Trades Technician II Role). This decision should be based on the nature of the current or potential staffing problems that are being addressed. The range of positions used by the agency or agencies experiencing the staffing problems may also influence the breadth of the survey.
- **Defining the relevant labor market:** This step identifies other employers who compete with the Commonwealth for employees that perform similar work. The market may vary from a few local employers in a particular industry to employers in various industries nationwide. The market for jobs performing duties that are unique to government would be local, state or

federal government agencies (e.g., social service, law enforcement and regulatory jobs).

- **Private Industry** includes firms in the relevant labor market (Virginia, the Southeast or Middle-Atlantic regions, or the United States) that may be selected from the Virginia Employment Commission's employer list or from membership lists of human resource or compensation associations. Salary surveys should always take into account the salaries paid by private firms for comparable jobs.
- **Government** entities, including local, state and federal agencies, may provide the most relevant comparison to State-level jobs. For a large number of state jobs, there are no comparable positions in the private sector. Additionally, the Commonwealth often competes for the same workers as federal agencies and localities attract.
- **States in the Southeastern or Mid-Atlantic region** represent the most relevant labor market for the Commonwealth's jobs. The suggested use of data from regional states does not preclude the use of data from other states, localities, or federal agencies if there is active competition with them for employees in the job **Role** under review. Florida, Georgia, Kentucky, Maryland, North Carolina, South Carolina, Tennessee and West Virginia are considered in many compensation studies, for the following reasons:
  - using the same regional states in all studies provides consistent results;
  - salaries paid by these states are comparable to salaries paid in Virginia;
  - in national salary surveys of private industry and state governments, Virginia employers' are typically grouped with the Southeastern or Mid-Atlantic region; and
  - the characteristics of the labor force (e.g., the size of the labor force, occupational and industrial mix, salary levels, union membership) in the Southeastern states are similar to those of Virginia.
- **Identifying Competitors:** DHRM may ask agencies to assist in identifying their competitors in the relevant labor markets. Employee exit

interviews are valuable sources for identifying competing firms. Additionally, agency managers and supervisors may maintain professional contacts with private firms and participate in their professional organizations that can often provide valuable information.

- **Compensation Publications**

Survey reports by professionally recognized national compensation organizations and consulting firms are often used. DHRM participates in a number of these surveys and receives these reports routinely. A list of these survey sources is on DHRM's website.

## **DESIGNING A SALARY SURVEY INSTRUMENT**

Survey instruments are designed to ensure that useful and accurate data are obtained, and that completing the survey is not an undue burden on respondents. Surveys may be conducted in writing, by telephone or by fax (see Appendix L, Sample Salary Survey Format).

### **Types**



Surveys typically are in written form if the number of jobs or the number of surveyed employers is large.



Telephone surveys may be used if the number of jobs and employers is small and the study must be completed within a short timeframe. Additionally, telephone surveys are preferred in instances where the jobs are unusual or complex because two-way communication assists in ensuring appropriate job matches.



Facsimile (FAX) transmissions and electronic mail (E-mail) are especially useful when time is limited.

## **Format**

There is no prescribed format for salary surveys. Rather each survey should be tailored to meet the specific purpose of the survey. There are several points that should be considered when designing the format of a survey:

- Assign a code to each company surveyed and assure prospective respondents that their data will be kept confidential;
- Identify each surveyed job by a ***Salary Reference Title*** that is likely to be understood in the private sector or in other public agencies;
- Do not include salaries of state jobs in the survey instrument since this may lead some respondents to match salaries rather than jobs;
- Obtain matching job title and the number of employees in the job from the respondents to assist in determining if it is an appropriate job match; and
- Obtain from the respondent the degree of job comparison by indicating whether their job is “similar in complexity”; “somewhat more” (or) “less complex”; or “considerably more” (or) “less complex”.

## **Capsule Job Description**

The salary survey should include “capsule” descriptions of the work performed by the employees being studied (see example in Appendix L, Sample Salary Survey Format). Some important points include:

- The capsule should include the nature and level of the work.
- The organizational level of the job should be indicated, particularly for management jobs, and the reporting relationships should be clearly stated.
- The capsule should be specific enough to enable the respondent to determine a reasonable match to the job. However, it should not be so detailed that it excludes reasonable matches.

## **Salary Data Elements**

Salary surveys typically ask respondents for the salary range and average (mean) salary paid to current employees. However, human resource professionals should understand the following salary terms and incorporate them into salary surveys as appropriate.



- **Salary Range** assigned to a job generally indicates its value to the organization. The spread (or width) between the minimum and maximum of the salary ranges may vary, depending upon the organization's salary structure.
- **Minimum Salary** is the entry level of pay for a job. It is usually the hiring rate for applicants with minimum qualifications.
- **Hiring Rate** is the pay rate used for starting salaries for applicants. The hiring rate may differ from the minimum salary if market conditions require the employer to hire minimally qualified applicants above the range minimum. The hiring rate may be used as the minimum salary for survey purposes if the employer has no salary range.
- **Maximum Salary** is the highest salary that an employee may receive in a given job. The maximum salary is the highest value the employer has attached to the job.
- **Midpoint Salary** is the halfway point between the range minimum and maximum salaries. The midpoint salary is used to compare various salary range widths and is one of the most helpful salary data elements used in surveys. Survey instruments usually do not ask for midpoint salary since it can be easily calculated by adding the minimum and maximum salaries and dividing the sum by two.
- **Longevity Pay** is a supplement paid to long-term employees, regardless of their job performance. Some organizations incorporate longevity pay into their salary structures. DHRM does not consider longevity pay in analyzing survey data. Survey instruments should request respondents to exclude longevity pay from their responses.
- **Simple Average (Mean) Salary** includes the total salaries of all employees in a particular job divided by this number of employees. The simple average (mean) salary is a good indicator of competitiveness because it relates, more than the range indicators, to the salaries that employees are actually being paid.
- **Median Salary** is a measure of central tendency that indicates the middle value in a range of salaries. The median salary has an equal number of salaries above and below it. In the case where there is an even number of

salaries, the median salary is determined by averaging the two middle salaries. The median can be used if there is a large number of employers responding to the survey. An advantage of the median salary is that it reduces the statistical effect of extremely high or low salaries.

- **Percentiles** are values on a scale of one hundred that indicate the percent of distribution. The median is equivalent to the 50<sup>th</sup> percentile. Percentiles are useful in determining the agency's relative standing in the labor market. For example, if the average electrician's salary in an agency equates to the 10<sup>th</sup> percentile of electricians' salaries in a survey, this means that 90% of the electricians in the survey are paid as much or more than the agency's electricians. This would indicate that the agency should consider ways to increase their electricians' salaries. On the other hand, it may be appropriate for a new, inexperienced employee to be paid at the 10<sup>th</sup> percentile, just as it may be reasonable for a highly skilled and experienced employee to be paid, for example, at the 80<sup>th</sup> percentile.
- **Effective Date of Salary Data** should be obtained from all respondents of the salary survey. If the salaries are not reasonably current, they should be adjusted by an estimated percentage to account for market movement. This process is often called "aging" the survey data. DHRM can provide assistance in locating and applying these estimates.
- **Benefit and Pay Supplements** such as free housing, uniform allowance and meal allowances affect total compensation for some jobs and should be considered in determining market competitiveness for such jobs. For most studies, however, agencies do not need to include requests for benefits information in their salary surveys. DHRM periodically surveys employers to compare and analyze the competitiveness of the State's benefit package.

## **ANALYZING SALARY DATA**

### **Determining Salary Deviations**

The simple average (mean), minimum, midpoint and maximum salaries from the survey respondents may be used to determine salary deviations. Surveys conducted by DHRM and agencies do not usually include enough employers for the median to be useful. However, published national surveys that include median and other percentile values may provide useful information.

The simple average of responding firms' data may be used to indicate the prevailing practice among employers. However, the simple average salary must be used with care. Employers with a small number of employees in a job will have a disproportionate effect on the average.

A method to offset this effect is to obtain a **weighted average salary**. A **weighted average** is obtained by adding all of the respondents' total salaries for a job and dividing the grand salary total by the total number of employees reported. The resulting figure is the **weighted average salary**. When **weighted averages** are used, large employers have more influence than smaller employers on the calculation of the market rate. A **weighted average salary** is a more appropriate measure than the simple average (mean) salary in an active market where large employers are hiring more employees in those jobs than smaller employers.

### **Calculating Salary Deviations**

Deviations indicate the adjustment that would be necessary for the Commonwealth's salary to be equal to the competitors' average salary. An average deviation can be calculated for any salary data element that is collected in a survey, including the range minimum, range midpoint, range maximum and average salary.

The deviation is computed by subtracting the competitors' average salary from the Commonwealth's corresponding salary (minimum, midpoint, maximum, or average salary) and dividing that difference by the Commonwealth's salary. Multiplying the quotient by 100 gives the percent deviation. Survey differences are always expressed as a percentage of state salaries to the market, as illustrated below.

#### ***Example: (Comparing range midpoints)***

<u>Virginia's Midpoint</u>	<u>Competitors' Avg. Midpoint</u>	<u>Difference</u>	<u>Virginia's Midpoint</u>	<u>Deviation</u>
\$15,000	\$16,000	= - \$1,000 (divided by)	\$15,000	= - 6.67%
\$26,000	\$24,000	= +\$2,000 (divided by)	\$26,000	= + 7.69%

**Negative Deviation** is the percentage that Virginia's range midpoint would need to be increased to equal the competitors' range midpoint (\$15,000 x .0667

= \$1,000 and  $\$15,000 + \$1,000 = \$16,000$ ). In other words, Virginia's range midpoint is - 6.67% behind the market.

***Positive Deviation*** indicates the percentage amount that Virginia's range midpoint would have to be reduced to equal the competitors' range midpoint ( $\$26,000 \times .0769 = \$2,000$  and  $\$26,000 - \$2,000 = \$24,000$ ). In this case, Virginia's range midpoint is + 7.69% higher than the market.